

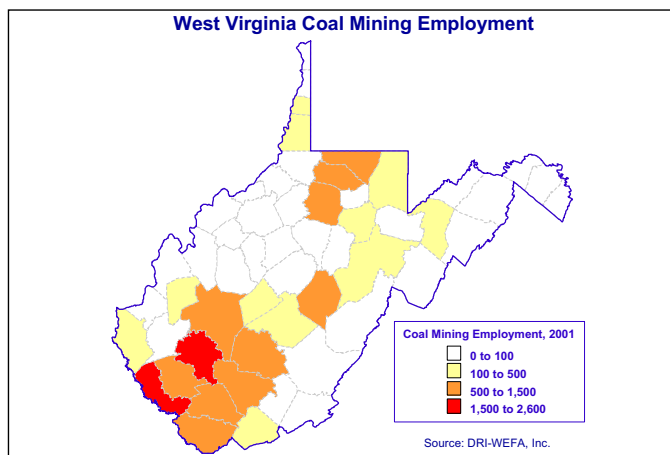
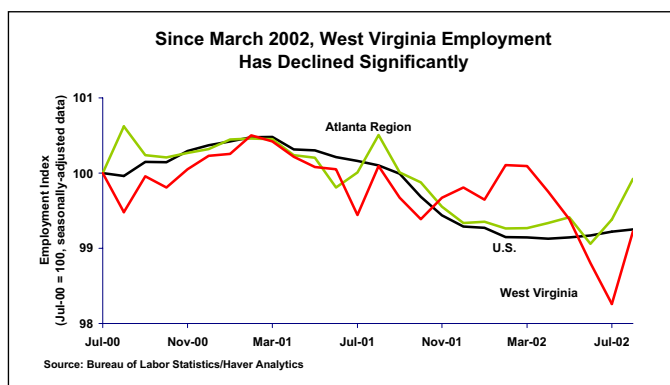
FDIC State Profile

WINTER 2002

West Virginia

West Virginia slipped deeper into recession throughout much of 2002, while losses at the national level have moderated.

- In terms of job growth, economic conditions in West Virginia deteriorated markedly during the first half of 2002. Until then, the recession had had a limited impact on the state. In August 2002, employment in the state was 1.2 percent below year-ago levels compared with the national average decline of 0.9 percent.
- Between February 2002 and July 2002, West Virginia lost nearly 14,000 jobs or 1.9 percent of its total employment. At the same time, job losses at the national and regional level had moderated (see **Chart**).
- West Virginia job losses are not attributable to a single sector. With the exception of services and finance, all areas of the state's economy saw year-over-year declines in employment in July 2002.
- Losses in West Virginia's critical coal mining industry, which employed nearly 16,000 workers in July 2002, may moderate as Consol Energy recalled laid off employees at its McElroy mine in Marshall County (**Wheeling** metropolitan area). Earlier in the year, the company had laid off about 300 workers at the mine due to the effects of low demand for coal and the recession, according to the **Charleston Daily Mail**. Another 250 layoffs also occurred at another nearby mine. Those workers have yet to be recalled though.
- West Virginia's coal industry has been in a structural decline for decades. Although employment growth has occurred in other areas of the economy, replacing the lost income from coal mining has been difficult. In 2001, the average annual wage from a coal mining job was over \$53,000 compared to the averages of \$24,503 and \$14,802 in the services and retail trade sectors, respectively.
- Long term, growth in West Virginia will be limited by population growth, which varies throughout the state. As a whole, population in the state has been in decline since 1996, according to the **Bureau of Economic Analysis**. Fewer people can ultimately translate into less demand for



goods and service, dampening growth prospects. For example, West Virginia may lose an additional 6,000 students by mid-decade, which will force further downsizing in public education, according to a recent report in the **Charleston Daily Mail**. In Kanawha County (a component of the **Charleston** metropolitan area) alone, enrollment has declined by 3,000 students in recent years, prompting the closure of 18 schools. Some areas of the state, however, particularly in the eastern panhandle have seen considerable increases in population as growth from the Washington metropolitan area has slowly spread outward.

West Virginia's community banks remain comparatively healthy

- The comparatively moderate impact of the recession on the West Virginia's economy during 2001 may have helped the state's 66 community banks continue to perform well, as measured by return on assets (ROA). In second quarter 2002, ROA of the state's community banks was 1.06 percent, 20 basis points above year ago levels. The net interest margin increased slightly as the declines in the yield on earning assets was outpaced by the fall in cost of funds.
- Credit quality in the state appears to have remained steady thus far in the recession. Personal bankruptcy filings in second quarter fell 14 percent from their year ago peaks in the second quarter 2002. This may be reflected in overall bank loan performance where the percent of loan that were noncurrent fell 23 basis point to 1.11 percent second quarter 2002. Net charge-offs have declined as well. However, should the economic deterioration of the first half of 2002 persist, credit quality could be adversely affected going forward, given the fact that the credit cycle often lags the economic cycle.
- One aspect of credit quality that may merit greater attention over the coming quarters may be in the area of residential. Since late 2000, West Virginia has seen a substantial rise in the percent of mortgages that are 90+ days past due or in foreclosure. Thus far, however, West Virginia's community banks have yet to see a rise in mortgage past-dues or charge-offs on the loans held on their books, according to **Call Report** data.
- Home equity lending may be another area of risk, if weakening economic conditions in the state continue. On a merger-adjusted basis, home equity loans represented the fastest growing lending line in second quarter 2002, up nearly 30 percent on a year-ago basis. Further job loss in the state could aggravate credit quality in this area.
- Economic uncertainty has had an impact commercial lending in the state. Declining corporate profits and the absence of business spending have affected commercial and industrial (C&I) loan growth (merger-adjusted) at West Virginia financial institutions. At June 30, 2002, year-ago C&I loan growth in the state had fallen to 1.66 percent, down from the double-digit levels seen in the same period one year earlier. Likewise, limited economic opportunities likely had contributed to the decline in construction and development (C&D) loan growth during the same period.
- In contrast to C&I and C&D loans, West Virginia lending secured by nonfarm nonresidential properties has seen increased levels of growth during 2002 (up 25 percent on a merger-adjusted basis in second quarter 2002 from the previous year). These loans now account for 143.33 percent of tier 1 capital, the second highest loan exposure after 1-4 family residential mortgages.

West Virginia at a Glance

General Information	Jun-02	Jun-01	Jun-00	Jun-99	Jun-98
Institutions (#)	61	63	71	69	82
Total Assets (in thousands)	7,341,523	6,988,053	9,191,550	10,458,582	13,487,105
New Institutions (# < 3 years)	3	3	5	3	5
New Institutions (# < 9 years)	10	8	9	5	6
Capital					
Tier 1 Leverage (median)	9.29	9.57	10.15	9.62	9.97
Asset Quality					
Past-Due and Nonaccrual (median %)	2.45%	2.89%	2.96%	3.18%	2.89%
Past-Due and Nonaccrual ≥ 5%	11	14	16	17	21
ALLL/Total Loans (median %)	1.14%	1.17%	1.11%	1.23%	1.30%
ALLL/Noncurrent Loans (median multiple)	1.31	1.19	2.15	1.26	1.49
Net Loan Losses/Loans (aggregate)	0.35%	0.41%	0.34%	0.44%	0.38%
Earnings					
Unprofitable Institutions (#)	2	3	3	2	3
Percent Unprofitable	3.28%	4.76%	4.23%	2.90%	3.66%
Return on Assets (median %)	0.96	0.91	0.99	0.97	1.19
25th Percentile	0.81	0.62	0.74	0.79	0.92
Net Interest Margin (median %)	4.45%	4.31%	4.49%	4.38%	4.53%
Yield on Earning Assets (median)	7.06%	8.13%	8.13%	7.82%	8.27%
Cost of Funding Earning Assets (median)	2.60%	3.87%	3.66%	3.44%	3.73%
Provisions to Avg. Assets (median)	0.19%	0.16%	0.14%	0.13%	0.14%
Noninterest Income to Avg. Assets (median)	0.46%	0.48%	0.49%	0.44%	0.50%
Overhead to Avg. Assets (median)	3.01%	3.00%	3.00%	2.81%	2.81%
Liquidity/Sensitivity					
Loans to Deposits (median %)	74.09%	75.01%	75.15%	71.84%	75.71%
Loans to Assets (median %)	63.37%	62.76%	64.26%	60.11%	62.66%
Brokered Deposits (# of Institutions)	7	3	4	4	9
Bro. Deps./Assets (median for above inst.)	1.35%	0.61%	0.70%	1.36%	0.58%
Noncore Funding to Assets (median)	12.52%	12.71%	13.47%	10.63%	10.94%
Core Funding to Assets (median)	77.16%	76.81%	76.50%	77.85%	78.41%
Bank Class					
State Nonmember	32	33	39	38	41
National	18	19	20	20	26
State Member	11	11	12	11	15
S&L	0	0	0	0	0
Savings Bank	0	0	0	0	0
Mutually Insured	0	0	0	0	0
MSA Distribution					
	# of Inst.	Assets	% Inst.	% Assets	
No MSA	47	5,176,381	77.05%	70.51%	
Wheeling WV-OH	3	544,352	4.92%	7.41%	
Huntington-Ashland WV-KY-OH	3	335,367	4.92%	4.57%	
Charleston WV	3	667,916	4.92%	9.10%	
Washington DC-MD-VA-WV PMSA	2	352,281	3.28%	4.80%	
Parkersburg-Marietta WV-OH	2	244,639	3.28%	3.33%	
Steubenville-Weirton OH-WV	1	20,587	1.64%	0.28%	